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NSC FOR ABRAMS/SINGH/GAVITO/YERGER/DEMOPULOS, STATE FOR
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SUBJECT: LEBANON: TELECOM SECTOR -- AS CONFUSING AS EVER

Classified By: DCM William Grant for reasons 1.4 (b) and (d)

SUMMARY

11. (C) Both Telecom Minister Hamadeh and Transportation Regulatory Authority (TRA) Chairman Shehadi are optimistic about the launch of the mobile telecom sale, but Shehadi appears to be struggling to get the TRA up and running. In earlier meetings with USG officials, Hamadeh appeared to support the TRA; Shehadi implied this might not be true any longer. Ogero, the antiquated fixed line company, appears to be the subject of special treatment by the Minister, and received mobile telecommunications equipment as a gift from China. The road show opening the sale of the two mobile telecom licenses could launch, but there is no marketing plan yet, and some details need to be resolved. End summary.

MEETINGS WITH HAMADEH AND
SHEHADI ON PRIVATIZATION

12. (C) In separate meetings September 13 and 14 EEB PDAS Elizabeth Dibble, NEA/ELA Deputy Director Steve Newhouse and Econoffs met with Minister of Telecommunications Marwan Hamadeh, and Chairman of the Telecommunications Regulatory Authority (TRA) Dr. Kamel Shehadi and met again with Dr. Shehadi on September 27. This cable reviews the status of the privatization of the telecommunications sector as outlined by Hamadeh and Shehadi in these meetings, as well as information from other contacts.

HAMADEH POSITIVE, BUT HINTS
OF OGERO GETTING AHEAD OF ITSELF

13. (C) In their separate meetings with PDAS Dibble, Shehadi and Hamadeh were both very positive about the launch of the road show to sell the two mobile telecom licenses, expected to take place before the end of September, noting everything was in place to proceed (note: it did not occur. End note). Both appeared firm in their conviction that the GOL had the political will to sell; only the emergence of a new government after presidential elections that rejected the idea of privatization might delay the proceedings. Hamadeh in particular appeared to be at ease with the notion of privatization, fully ready to move ahead immediately and without any reservations about the process, the sale, or the TRA. However, during the course of the meeting he unexpectedly referenced Ogero's mobile telecom business. (Note: Ogero, the antiquated fixed line company which the GOL plans to corporatize and then privatize in 2008, does not

have a mobile service; the plan is to corporatize Ogero, then privatize the company as Liban Telecom. Only then will the TRA make the decision to allow Liban Telecom a mobile license. End note.)

SHEHADI HAPPY WITH U.S. TRIP,
BUT DISAPPOINTED WITH GOL
PROGRESS ON PRIVATIZATION

14. (C) Shehadi was very positive about the reception he received in Washington for a series of meetings, arranged by U.S. Telecommunications Training Institute. He stressed the opportunities for collaboration between the USG and the GOL regarding training, telecom regulation, and business opportunities. However, he was a lot less upbeat about the overall privatization situation. He was very discouraged about the lack of progress on the part of the GOL while he was away. He described waiting in the office of Hamadeh all day to try to push for decisions required to move ahead with the sale.

TRA HIRING IN QUESTION

15. (C) According to Shehadi, the biggest issue for the TRA currently is recruiting. The TRA is not following the prescribed civil service hiring protocol, and he believes the Prime Minister "has been convinced" that this is illegal. Shehadi views his hiring process as transparent and within the guidelines, but believes that Ministry of Telecommunications Director General Abdel Menim Youssef is a roadblock. Youssef is reportedly actively discouraging Ministry of Telecommunications (MOT) staff from joining the

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TRA, including threatening them with legal action if they do join. Shehadi is reluctant to continue hiring under these circumstances.

TRA FUNDING IN
QUESTION AS WELL

16. (C) The second major issue is funding. Although the cabinet approved the TRA's overall budget, each allotment of funds requires cabinet approval. The TRA expected to receive the second installment of funds this week, but even that amount will only bring the allocated funds to less than 25 percent of the annual TRA budget. In order to keep the TRA solvent for the balance of 2007, the cabinet must issue a ministerial decree for an additional 25 percent of the total at the next cabinet meeting. Because Parliament Speaker Nabih Berri has not called a session of parliament since late in 2006, no new laws can be passed through the normal constitutional process. The only option, therefore, has been for the cabinet to approve issues such as new funding. This can only be done if the cabinet originally approves a measure, say the funding of the TRA, and then, when the degree cannot go for parliamentary approval, the constitution allows the cabinet to review the same item fifteen days later, and if still in agreement, the item can be re-approved and it becomes legal. However, if parliament, which is scheduled to resume October 16, resumes meeting and takes on its normal work in the near future, it is not clear if the TRA funding will be subject to the normal constitutional procedure or if it will have already been passed by the cabinet twice. Only after one of these two possible options concludes will the TRA have the funding necessary to continue operations.

CHINA AND OGERO: WHERE
DID THE DEAL COME FROM?

17. (C) Reflecting on the lack of funding and the recruiting

issues, Shehadi said he believes that the TRA might not have the full support of Minister Hamadeh. He cited a number of incidents that convince him of this. All of them involve Ogero, the fixed line company, and its chairman Abdel Menim Youssef. Shehadi believes Youssef intends to circumvent the TRA in his bid to gain control of an upgraded Liban Telecom, the company that will result from the privatization of Ogero.

According to Shehadi, China is supplying Ogero with \$7.5 million in equipment and technical support to establish a GSM/mobile telephone system for Ogero. Ogero and the GOL did not tender this purchase, and have identified it as a donation by the Chinese in response to Paris III. (Note: We have no record of a Chinese donation of this type or magnitude. End note.) To operate this system, Youssef "took" ten megahertz of bandwidth for the sole use of Ogero. Shehadi said that Youssef backdated the documentation securing this bandwidth so that it appeared to predate an August 25, 2007, letter from the TRA freezing the distribution of bandwidth and attempting to identify bandwidth currently in use. The control and allocation of bandwidth is by law a TRA function.

MINUTE-BY-MINUTE RUMORS

18. (C) Shehadi later told us that the cabinet recently extended the term of the Ogero board, and delegated to Youssef specifically power to "do anything needed to launch Liban Telecom." Shehadi believes that Youssef intends to circumvent the TRA, and Shehadi vowed to "take the GOL to court over this, if true." (Note: Our contacts within the MOT and the Ministry of Finance (MOF) confirmed that the cabinet extended the term of the Ogero board, which expired in September 2007. End note.)

EXPLAINING THE CHINESE CONNECTION

19. (C) A reliable source in the MOT, asked to confirm several of Shehadi's remarks, was unaware of any decision to award Youssef full control over the privatization of Liban Telecom. We also received no confirmation of this decision regarding Youssef and Liban Telecom from anyone present at the meeting. However, a Ministry of Telecommunications official was able to give more details about the GSM equipment from China.

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According to him, it is critical to make a clear distinction between Ogero -- the currently existing fixed-line company -- and Liban Telecom -- a potential and still unrealized concern to be formed by the privatization of Ogero. The Chinese, desiring an entree into the telecom market in Lebanon, offered to donate \$5 million in telecom equipment of any kind to the GOL prior to Paris III. The GOL and specifically the MOT were able to choose from a variety of equipment, and chose GSM equipment to establish a mobile telephone system. Ogero does not own a mobile license, but Liban Telecom will have one when privatized. Although there is no way that Ogero can legally operate a GSM system, Ogero is setting up such a system, using expertise from the two mobile company operators, Alpha and MTC. After privatization, any intermingling of Liban Telecom and competitors Alpha and MTC would be a conflict of interest, and the owner supervisory board of the MOT would prohibit it. However, until privatization takes place it cannot be forbidden. The apparent desired outcome, according to our source, would be that Liban Telecom would emerge with an operational mobile telephone system, for which it paid nothing, and the Chinese would have a lead in bidding on the company or any future tenders.

DETAILS ASIDE,
ROAD SHOW IS READY

¶10. (C) Shehadi still believes that the preparations for the sale of the two mobile licenses are on track, and the road show is ready to go. The text of the required documents is almost ready, and Minister of Finance is driving the process within the cabinet. The PM decided that revenue sharing will be either 0 percent or 10 percent. The final decision will be made between the first and second rounds of bidding, and will depend on the results of the first round, where bidders will bid on both options. Shehadi admits that Minister of Finance Jihad Azour might still wish to push for a higher percentage; he previously pushed hard for 20 percent. The cabinet has not yet decided how many shares the GOL will sell to the companies who buy the licenses. Potentially the GOL can hold back one third of the shares, to either sell later or hold permanently. The cabinet must make this decision prior to the sale, and Shehadi believes the GOL will never sell those shares. Shehadi believes that a combination of revenue sharing and the revenue earned on the 33 percent of the shares that the GOL will not sell will replace the revenues from the mobile companies, which represent both a significant and the largest portion of the revenues of the GOL.

AUCTION DETAILS

¶11. (C) At this point, the TRA would like to open the "virtual data room" (VDR) which will allow the road show to begin, and allow potential bidders to look at the offer. If the TRA could do this, Shehadi could move ahead on other issues. Asked what the potential bidders might think about possible future nationalization of the newly formed companies, Shehadi thought that bidders would all discount their bids based on the security situation, but also believes that there is sufficient precedent to indicate fair treatment. The GOL legal advisors, Le Boeuf, are planning the auction room. They are drafting the design, which will require approval by the TRA and then the MOT. After that, the VDR can open. The road show should launch soon in order to meet the deadline of a sale prior to June 2008. This date is both a benchmark date for Paris III donations (including a U.S. tranche) and marks the end of the current management contracts with the two mobile companies. However, the GOL can extend these contracts on a month-by-month basis.

MARKETING PLAN MISSING

¶12. (C) What is missing, Shehadi believes, is a marketing plan. Ziad Hayek of the Higher Council for Privatization, who will be responsible for the sale along with the TRA, reportedly told Shehadi he said he has no plan or budget for a plan, and it will be "left to the banks" to market the sale. Shehadi believes that this sale will need a special marketing effort to attract the right bidders, such as U.S. firms who will not otherwise notice the offer. However, the GOL does not want a plan and does not want to spend the money to develop one, he said.

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COMMENT

¶14. (C) Tracking the status of the telecommunications sector in Lebanon is often like trying to tell time by looking only at the second hand of a watch, so progress is difficult to measure. Despite all assurances that the privatization is progressing in a timely manner, it appears that there are still many obstacles to the sale of the mobile licenses. Even the establishment of the Telecom Regulatory Authority, which seemed to be secure, may be a victim of political wrangling, unless the funding and hiring issues are resolved.
End comment.

¶15. (U) PDAS Dibble has cleared this cable.

